

India Review

Editor: **Sumit Ganguly**, Indiana University, Bloomington
Managing Editor: **Jonah Blank**, U.S. Senate Foreign Relations Committee
Associate Editor: **Alyssa Ayres**, University of Pennsylvania
Book Review Editor: **Mira Kamdar**, World Policy Institute
Contributing Editor: **Dinshaw Mistry**, University of Cincinnati
Assistant Editor: **Julian Westerhout**, Indiana University, Bloomington

Editorial Board

| | |
|---|--|
| John Adams , Sawhill Associates | Christophe Jaffrelet , CERJ, Paris |
| Kanti Bajpai , The Doon School | Niraja Gopal Jayal , Jawaharlal Nehru University |
| Sanjaya Baru , Financial Express, New Delhi | Devesh Kapur , Harvard University |
| Jagdish Bhagwati , Columbia University | James Manor , University of Sussex |
| Marshall Bouton , Chicago Council on Foreign Relations | Subrata Mitra , University of Heidelberg |
| Paul Brass , University of Washington | Jean-Luc Racine , Ecole Des Hautes Etudes en Sciences Sociales, Paris |
| Stephen P. Cohen , Brookings Institution | T. N. Srinivasan , Yale University |
| Stephen Dale , Ohio State University | Tan Tai Yong , National University of Singapore |
| Larry Diamond , Hoover Institution | Ashutosh Varshney , University of Michigan |
| Robert Hardgrave , University of Texas at Austin | John Wood , University of British Columbia |
| | Anand Yang , University of Washington |

Abstracted and/or Indexed in: Historical Abstracts; America: History and Life; International Political Science Abstracts; the International Bibliography of the Social Sciences.

Manuscripts and Editorial correspondence should be sent to editor@indiareview.org. Please see the submission instructions on the journal's webpage, www.indiareview.org

India Review (USPS permit number pending) publishes quarterly in March, June, September, and December by Taylor & Francis, Inc., 325 Chestnut Street, Philadelphia, PA 19106.

US Postmaster: Please send address changes to FIND, c/o IMS, PO Box 1518, Champlain, NY 12919, USA.

Annual Subscription, Volume 3, 2004: Print ISSN 1473-6489. Institutional subscribers: US \$222. UK £139. Personal subscribers: US \$62, UK £44. An institutional subscription to the print edition includes free access to the online edition for any number of concurrent users across a local area network.

Production and Advertising Office: 325 Chestnut Street, Philadelphia, PA, 19106. Tele: (215) 625-8900, fax - (215) 625-8563. Production Editor: Beth Schad.

Subscription Offices. USA/North America: Taylor & Francis Inc., 325 Chestnut Street, Philadelphia, PA 19106. Tel: 215-625-8900; Fax: 215-625-2940. **UK/Europe:** Taylor & Francis Ltd., Rankine Road, Basingstoke, Hampshire RG24 8PR, UK. Tel: +44 (0) 1256 813 000; Fax: +44 (0) 1256 330 245.

For a complete guide to Taylor & Francis Group's journal and book publishing programs, visit our website: www.taylorandfrancis.com

Copyright © 2004 Taylor & Francis. All rights reserved. No part of this publication may be reproduced, stored, transmitted, or disseminated in any form or by any means without prior written permission from Taylor & Francis Inc. Taylor & Francis Inc. grants authorization for individuals to photocopy copyright material for private research use on the sole basis that requests for such use are referred directly to the requester's local Reproduction Rights Organization (RRO), such as the Copyright Clearance Center (www.copyright.com) in the USA or the Copyright Licensing Agency (www.cla.co.uk) in the UK. This authorization does not extend to any other kind of copying by any means, in any form, and for any purpose other than private research use. The publisher assumes no responsibility for any statements of fact or opinion expressed in the published papers. The appearance of advertising in this journal does not constitute an endorsement or approval by the publisher, the editor, or the editorial board of the quality or value of the product advertised or of the claims made for it by its manufacturer.

India Review

Volume 3 Number 4 October 2004

Special issue on *The Politics of India's Next Generation of Economic Reforms*
Guest editors, Rob Jenkins and Sunil Khilnani

Contents

| | | |
|--|-------------------------------|-----|
| Abstracts | | iii |
| Foreword | <i>Sunil Khilnani</i> | 255 |
| Introduction | <i>Rob Jenkins</i> | 257 |
| Understanding India's Reform Trajectory: Past Trends and Future Challenges | <i>Montek Singh Ahluwalia</i> | 269 |
| Managing Competition: Politics and the Building of Independent Regulatory Institutions | <i>Rahul Mukherji</i> | 278 |
| Financial Globalization and India's Equity Market Reforms | <i>John Echeverri-Gent</i> | 306 |
| Labor Policy and the Second Generation of Economic Reform in India | <i>Rob Jenkins</i> | 333 |
| Ideas and Economic Reforms in India: The Role of International Migration and the Indian Diaspora | <i>Devesh Kapur</i> | 364 |
| Enterprise and Development In India – An Interregional Perspective | <i>Sanjaya Baru</i> | 385 |
| The Growth and Sectoral Composition of India's Middle Class: Its Impact on the Politics of Economic Liberalization | <i>E. Sridharan</i> | 405 |
| Notes on Contributors | | 429 |
| Index to Volume 3 | | 431 |

themselves. I thank them, along with all those who presented essays at the symposium and revised them for this collection. Particular thanks to the GE Fund, whose generous support made the whole event possible, as well as to Michael Gadbow and Scott Bayman for the steady encouragement they have offered to the South Asia Studies program at SAIS. Thanks too to my colleagues, Anjali Sharan and Walter Andersen, for their support – Anjali's organizational talents were once again invaluable. Rob Jenkins took on the major share of the editorial burden of putting this collection together, and I am very grateful to him for shouldering this with his usual good humor. The team at *India Review* have been at once patient and extremely helpful in the editing of this collection: I thank Alyssa Ayres, Jonah Blank, and Sumit Ganguly – who, as editor of *India Review*, kindly gave us the opportunity to publish these papers as a special issue of the journal.

Introduction

ROB JENKINS

As this special issue of *India Review* goes to press – in early November 2004 – the Congress-led United Progressive Alliance (UPA) government, under the leadership of prime minister Manmohan Singh, is still in its infancy. This new coalition has begun to work out its approach to economic issues, by means of negotiation among the parties in this diverse coalition, and through the work of agencies like the Planning Commission, now led by Montek Singh Ahluwalia, one of the original architects of India's reforms and, as it happens, a contributor to this collection of essays.

A change in government presents an opportune moment to take stock of a country's economic policy agenda – to assess not just what should be done, and what can be managed, but also trends that have shaped both the most recent generation of reform and the political terrain on which the next one will be played out. As finance minister from 1991 to 1996, Manmohan Singh was a key player in India's dramatic turn towards a more market-oriented economy. His economic leanings are by now reasonably well known. During his earlier stint in the cabinet, however, Singh could rely on prime minister P. V. Narasimha Rao to manage the politics of reform. Narasimha Rao's decisions sometimes made life difficult for his finance minister – as when Singh's subsidy-cutting budget proposals in 1991 were quickly abandoned in the face of mass demonstrations. Such humiliating policy “rollbacks” are now a regular feature of the budget speech drama. Having been initiated into this curious rite following his first budget speech in 1998, Yashwant Sinha – finance minister during most of the National Democratic Alliance (NDA) government – reportedly made it his practice in future years to draft a “rollback announcement” even before presenting his budget to parliament. This is a stark reminder of the pervasiveness of politics in the reform process: an

indication of how responses to such pressures become institutionalized and bind future reformers.

During the early years of reform, Narasimha Rao's job, as he put it in an interview broadcast in May 2004, was to provide Manmohan Singh the political "armor" he needed to face opponents of economic liberalization, to play the supportive end in what he likened to a successful cricket batting partnership. Narasimha Rao, by his own admission, needed to take action when he saw "something like a backlash" brewing. But in his eyes, the division of labor between him and his finance minister was clear: "Many people attacked him, I said attack me. Don't attack him, he's not a politician. Let him do his job."¹ When Manmohan Singh was finance minister, the claim that he was not a politician was already a stretch; that he came from the unelected upper house of parliament, the Rajya Sabha, made it possible – barely – to claim that he was still just a technocrat. Now that he is prime minister, no such fig leaf exists. Manmohan Singh is responsible for the political management of reforms. But Singh's knowledge of economics actually puts him in an even more difficult position than Narasimha Rao faced. Singh cannot claim, as Narasimha Rao did, that his role in the reform process is merely to stand "like a rock"² behind a reforming technocrat. The planning of economic policy – and not just its political management – will be seen as the prime minister's doing as much as it will his finance minister's.

Advancing the process of economic reform into a new generation will in fact present the new government with a daunting range of political problems, not least the sheer enormity of this ever-expanding agenda, which includes the deepening of existing structural reforms as well as the need to address issues of equity, to place public finance on a more sustainable footing, to stand up for India's interests in multi-lateral trade negotiations, to upgrade the country's decaying infrastructure, and to combat the corruption that drains both public resources and entrepreneurial energy. Moreover, each of these issues – and the tradeoffs involved in prioritizing them – involves acute political dilemmas. While India's nearly decade-long experience with coalition governance has shown that it is possible for a government to continue reforming the economy even with one eye fixed on maintaining its parliamentary majority, there is by now ample evidence of the influence of political uncertainty on the nature of the agenda and the pace of change. The fractured mandate produced by the 2004 general election,

and the fact that one or another state-level election seems forever looming on the political horizon, will ensure that a degree of unpredictability remains the norm.

It was in the shadow of these elections that the seven contributors to this collection wrote their essays. Much of the initial writing took place during the extended campaigning and multiphase voting process that occupied the first half of 2004. The symposium at which the papers were first presented took place on May 17, less than 24 hours after post-election political uncertainty had rattled India's markets, leading to large declines in the major equity indices. At that point in time, at least on the surface, the composition of the Congress-led coalition seemed to rest as much on matters of economic principle as on considerations of practical politics. Political commentators who tried to convey what all the maneuvering might mean for the future of economic reform alternated between analysis of specific sectoral issues and reflections on longer term processes of change.³

This division is reflected in the articles presented here. With the exception of Ahluwalia's keynote overview, the analyses are of two types. The first deals with concrete issues – whether relating to a specific sector (Echeverri-Gent's treatment of financial sector reform), an institution of economic governance (Mukherji's assessment of new regulatory bodies), or a longstanding item on the reform agenda (Jenkins' analysis of labor policy under the NDA government). These three policy questions overlap to a considerable extent: restructuring India's equity markets is bound up with a host of regulatory issues, though, as Echeverri-Gent points out, not always of a classic state-managed variety; labor reform is widely considered a key factor affecting flows of foreign direct investment, a central objective of financial sector reform; and depending on the decisions made by regulators in telecoms and banking, the need for labor retrenchment in state-owned firms in these sectors will go up or down.

Analyses of the second type are concerned less with specific elements of the reform agenda than with how processes and actors have shaped that agenda – and will continue to do so. Sridharan's paper examines the nature (and expansion) of India's middle class, which – rightly or wrongly – has been closely associated in the public mind with economic reform. By surveying the changing composition of the middle class and the distinct segments into which it can be divided, Sridharan's analysis avoids the usual generalizations that afflict

commentaries on the role played by this constituency in supporting policy change. The middle class, he argues, has an inherently ambivalent relationship to liberalization – eager for the increased consumer choices the market provides, yet anxious about the loss of the state patronage that helped bring the middle class into being.

Just as Sridharan situates the middle class both as an *actor*, whose attitude to reform is considered crucial, and as part of an ongoing *process*, through which its growth and diversification affects its relationship to policy questions, Baru and Kapur employ a similar approach. Baru examines a central reality of economic change in India – the great disparities between its economically dynamic regions (mainly in the west and south) and those for which huge developmental challenges remain (primarily in the east and north). Noting that this process unfolded over a long period of time, and has persisted for more than a century, Baru searches well beyond the recent policy changes for causal factors. He argues that neither state-led nor market-led approaches to development have been able to narrow regional disparities. What accounts for the divergence is the uneven presence across India of a crucial, though often ignored, actor in the development process: an indigenous entrepreneurial class. Like Baru, Kapur is able to transcend a similarly stale debate – about whether reforms were driven by the emergence of new ideas or were merely a reflection of the interplay among a diverse array of interests. And like Baru (and Sridharan), Kapur does this by combining an analysis of a large-scale process (international migration) with a detailed appreciation of a group of actors caught up in it (in this case, economists of Indian origin). Kapur argues that these policy-oriented “returning migrants” provided the “social remittances” – in the form of policy ideas – that helped India to transform its economic paradigm. No matter how much realignment took place among interest groups in response to the new economic policies, it seems fair to conclude that without a steady transborder flow of ideas (embodied in India’s case by economists who had studied and worked abroad), India’s economy would not have been reshaped along the current lines.

As Jenkins points out, the precise boundaries of the so-called second generation of reform are, because of the sheer diversity of definitions found in the literature, exceedingly difficult to demarcate. But whatever (or wherever) they are, India’s *next* generation of reform – a term that avoids the baggage of “second generation”

reforms, since it is unclear if all the measures that should have been in the first generation have yet been enacted – will not only be shaped by politics; it will shape them in turn. An awareness of this relationship of reciprocal influence between politics and reform is among the features shared by all the articles here.

The authors provide three distinct lenses on the politics of India’s reforms. The first concerns popular or electoral politics. Sridharan, for instance, examines survey data on the class-wise support for various political parties in elections of the past decade, concluding that in order to grasp the complex nature of middle-class support for aspects of reform, it is necessary to examine not just occupational and income-level categories within the middle class, but the correspondences between caste status and party affiliation as well. This significantly complicates the analysis of how India can build a durable constituency for continued economic liberalization. Jenkins, too, pitches part of his analysis of labor reform at the level of popular politics, or, as the literature around which he constructs his analytical framework has called it, “mass politics.” Indeed, as Jenkins argues, the shift from the first to the second generation of reform can best be seen as, in part, a transition from a politics of elite negotiation to one in which the issues involved are increasingly those of popular concern, articulated through a discourse that allows reform to enter the domain of mass politics.

The second lens is that of interest group politics. There is a large public choice literature, with an admirably cross-national comparative dimension, that seeks to model the incentives facing interest groups as policy changes are contemplated, announced, and executed. The insights generated, however, are often limited by the schematic nature of these studies. The contributors to this collection have sought to overcome this shortcoming by modifying existing models to make them relevant to the peculiarities of India’s political economy. Echeverri-Gent, for instance, portrays India’s transition to a new equity market regime in ways that go beyond the standard approach found in the work of Frieden and Rogowski,⁴ in the process enriching their approach rather than dismissing it entirely. Narrowly focused interest groups considered sufficiently powerful to resist financial sector reform turned out to be less formidable than they at first glance appeared. One-time advocates of the status quo – such as India’s stockbrokers, who profited nicely from the old set of market institutions – found themselves undermined by the very commodity over which they thought

they had a monopoly – knowledge of how equity markets function. Other players, particularly those in government, were able to draw on unexpected resources to level the informational playing field. A similarly theory-defying dynamic is revealed by Mukherji's analysis of interest group haggling that characterized reform in the telecom and power sectors.

The authors also manage to convey the difficulty of capturing the protean quality of interest group politics in India. Organized interests can be seen – whether in the work of Baru, which covers a long period, or of Mukherji, where the timeline is more compressed – as relatively fluid and far from monolithic. Business associations, and even some of the trade unions discussed by Jenkins, often respond to the new incentives thrown up by early rounds of reform by reordering their preferences – sometimes because they see new economic opportunities emerging, and in other cases because they perceive political forces realigning in ways that make continued resistance appear futile and a strategic rethink more practical, despite what a static assessment of their interests might conclude. Ahluwalia's comment on the political implications of India's "peculiar" approach to gradual economic reform, coming as it does from someone who is both an academic economist and a key actor in the process of reform, reinforces this point. Responsive to the power of this logic, the other authors in this collection are able to highlight another trend in the area of interest group politics that is of critical importance to the unfolding of reform: the increasing blurriness of the line dividing organized economic interests from the broader movement-based forces in Indian politics, which the Rudolphs once termed "demand groups."⁵ This diversity of actor types makes the task facing reformers, not to mention researchers attempting to understand and analyze the political constraints on reform, even more challenging.

The institutional dimension of reform politics represents the third lens offered by the articles here. Institutional analysis, of course, comes in many varieties. Even *neoinstitutionalism* has at least three flavors.⁶ The papers in this special issue, however, return to the basic notion of institutions as agreed "rules of the game." This enables the authors to analyze how institutional variables influence the nature and sequencing of reform, while also recognizing the profound effect that policy change can have on the institutional landscape, and on how institutions are regarded by key political actors. Both Mukherji and

Echeverri-Gent trace the emergence of new economic institutions during the period before and after 1991, revealing the often messy politics through which they took root. Neither the Telecom Regulatory Authority of India nor the Securities and Exchange Board of India assumed their current forms through a clearly planned strategy for institutional development. Politics intervened at almost every stage of their evolution, sometimes in the form of intra-bureaucratic turf wars. And as Jenkins's study of labor policy demonstrates, a relatively discreet approach to reform – itself a reflection of political realities – can undermine the very institutions that a sustainable approach to liberalization requires. Baru emphasizes the need to reinvent the institutions that manage interstate and center-state economic relations. This is necessary if fiscal transfers are to be made more effective instruments for redressing developmental disparities between India's regions, the persistence of which tarnishes liberalization's image in many quarters.

While furnishing these three perspectives, this collection also raises important questions about the relationship between various *levels* of governance. While neoliberal reforms are primarily aimed at national economies, the politics involved encompasses both the transnational and the subnational. Whether it is Kapur's account of diasporic networks among Indian economists; Mukherji's study of the process by which regulatory models took root in the power and telecom sectors; or Echeverri-Gent's discussion of global best practice in equity market microstructure – all focus not just on the importance of ideas in policymaking, but also on the question of whether India's reforms were imported or "homegrown." Ahluwalia addresses this issue perhaps most directly. He is unequivocal in stating that it is simply wrong to consider economic liberalization as something undertaken at the behest of the World Bank and the International Monetary Fund.

For those who might consider Ahluwalia's position as a policy insider a reason to discount his testimony, rather than something that lends his case further authority, Mukherji's detailed discussion of telecom sector reform might provide more convincing proof. The process of liberalizing the telecom sector dated from the early 1980s, first under Indira Gandhi, who began a modest effort at deregulation and initiated contacts with foreign equipment suppliers, and picked up further momentum under Rajiv Gandhi, whose technology missions brought focus to the effort. Mukherji's point is that liberalization *preceded* the balance-of-payments crisis of 1990–91 that is seen to have

furnished the international financial institutions such great leverage over India's policymakers. Echeverri-Gent's discussion of equity market reform tells a similar story, further denting the widespread impression that reform was launched as a result of IMF and World Bank diktats: the dismantling of India's antiquated systems for managing share trading began, like so much else, during the 1980s rather than the 1990s.⁷ Jenkins, too, in his analysis of the unfinished business of labor reform, implies that the reality belies the facile impression of World Bank and IMF omnipotence. Were these institutions as powerful as is often claimed, then surely India's employers would no longer, 13 years after the reforms began in earnest, continue to be bound by an Industrial Disputes Act whose main provisions are now more than a half-century old.

Kapur's study of the role played by India's "returning migrant" economists in promoting market-oriented reform brings the issue of transnational influence down to a more human scale. He presents an impressive list of Indians – from Ambedkar to Ahluwalia – who studied economics in elite universities abroad. Some of these, particularly in more recent years, complemented their education with experience working in international organizations. This gave them not just a grounding in new economic theories, but also exposure to developing countries other than India, whose mistakes in adopting dogmatic versions of economic reform convinced many of them that India needed to pursue a hybrid approach. India's policy-intellectual diaspora also built invaluable professional networks. This all occurred alongside the flowering of India's entrepreneurial diaspora, which included the children of several prominent Indian politicians, who, Kapur speculates, began convincing their parents of the merits of competition, deregulation, and other such economic heresies. The stunning success of Indians abroad furnished a useful backdrop against which reformers recently returned from a spell at the World Bank could showcase their policy advice. While Kapur's image of Mulayam Singh Yadav having his policy horizons widened during long-distance telephone calls with his son is perhaps the most vivid illustration of the linkage between domestic politics and the international influences on reform, other contributors highlight slightly more prosaic examples. Mukherji argues that while India's telecom reforms were largely a product of domestic deliberation, which *preceded* the conditionality-based adjustment programs of the early 1990s, the "foreign exchange crisis

aided the implementation" of the recommendations pouring forth from government committees. This was not an isolated case. It was the global regulatory standards developed by transnational networks of government financial regulators and the private sector bodies that manage many stock exchanges which, according to Echeverri-Gent, supplied the ammunition India's liberalizers needed to prevail in their policy battles against defenders of the status quo.

This all adds up to a considerably more complicated picture than the one that valorizes India's homegrown approach to reform. No, the government was not taking orders from Washington. But neither were the ideas or the mechanisms that advanced them fully indigenous. This underscores the need to distinguish between the source of ideas and the means by which they reach their destination. Whether originating at home or abroad, policy advice can be spread through pressure or persuasion. Even in cases of persuasion, what impact a policy's foreign origin will have cannot be assumed: a bad idea from abroad can carry the day merely because of its connection with presumed foreign expertise; a good idea, simply because it is associated with an unpopular external agency, may never get turned into policy. The nature of foreign pressure requires similarly nuanced attention: while there is no doubt that, as Echeverri-Gent and Mukherji have shown, many of India's sectoral reforms got underway with little pressure from the international financial institutions, the pressure from international markets – *The New York Times* columnist Thomas Friedman's "electronic herd" of globally roaming investors – exerted a discipline on policymakers. That, as we have seen, pressure of this sort was at times seen as a welcome ally by reform advocates within India – including those recently returned home from working or studying abroad – should further warn us against drawing facile conclusions about the relationship between domestic and transnational processes.⁸

Events *below* the national level have played a large role in shaping India's politics of reform as well. Issues of federalism and subnational governance, and their relationship to the trajectory of reform, crop up in almost all of the papers in this special issue. Asking why India's new telecom regulator managed to evolve into a substantial institution, while its counterpart in the power sector did not, Mukherji points to India's federal structure as an important institutional variable. Responsibility for the power sector is shared between the center and the states, whereas telecommunications is a subject for the center alone. As

a result, India's telecom regulator could act – after a long period of maturation – as a more authoritative referee in disputes between government and private providers. Mired in provincial politics, state-level electricity regulators made decisions that rendered the Central Electricity Regulatory Authority much less influential than it should have been. Federalism has also proven important to the course of labor reform: it is primarily at the state level that action has been taken. States are driven to compete with one another for investment by reforming – sometimes *de jure*, but often *de facto* – their labor policies. State-level politicians also learn from one another's experience in this area, carefully watching policy ideas in neighboring jurisdictions and – perhaps as important – monitoring their political impacts.

Even in those essays devoted to broader processes, rather than specific policy matters on the reform agenda, state-level dynamics and what Kapur calls India's "resurgent federalism" show their importance. "An emerging trend," Kapur argues, "is the tendency for people with international experience to seek influence over economic policymaking at the subnational level, rather than solely in Delhi." Kapur also points to the crucial role played by a "regional diaspora" – through organizations such as the Telugu Association of North America – in shaping the reform agenda of former Andhra Pradesh chief minister Chandrababu Naidu. Baru deals perhaps most directly with the regionalization of Indian politics. Even so, his account of regional developmental disparities highlights the ambiguity involved: as liberalization gives regions more power, it also potentially reduces the corpus of funds available for interstate redistribution. Politicians in poor states are apprehensive about both forms of devolution that have taken place of the past year – the *economic* variety, in which states have found themselves with increased policy autonomy thanks to the demise of the Delhi-based license-permit raj, and the *constitutional* sort, through the creation of new, smaller states, carved out from within existing states. These politicians fear that more power in the hands of the states will mean a corresponding reduction in the central government's capacity to effect redistribution. Whether such fears are justified is questionable, since the regionalization of party politics has also increased the leverage of regional parties over the national coalitions in which they participate. The ability of any given coalition in Delhi to resist the redistributive demands of at least *some* states – those where its coalition partners are in power – will be effectively limited.

As noted earlier, the electoral dimension of reform politics is notoriously difficult to gauge. While none of the election surveys conducted by the Delhi-based Centre for the Study of Developing Societies has shown reform to be a major determinant of voting behavior, there is always the sense that a hidden effect might somehow be lurking somewhere in the data. Add the uncertainty as to whether political leaders might *perceive* election results to reflect the public mood on economic reform generally, or on certain reform measures in particular, and the issue grows even murkier. There is, moreover, no guarantee that pro-reform politicians might not regard perceived anti-reform public opinion as something that can be molded through imaginative rhetoric or a different approach to substance and the packaging of reforms. Politicians vary enormously in their inclinations on these crucial questions.

This uncertainty and inscrutability apart, there are some indications that key figures in the new government see the NDA's defeat as a sign that parts of the electorate have turned actively against reform – or at least that part of the economic agenda that is seen to have increased the gap between rich and poor. Whatever his private views on the matter, Manmohan Singh has certainly taken great pains to be seen to be responding to this electoral signal, attending to groups left out of whatever economic prosperity India has experienced in recent years. One of the prime minister's first public trips was to Andhra Pradesh, where reform-friendly Chandrababu Naidu had recently been ousted by voters. Placing himself in a conspicuously rural setting, with plenty of media on hand to record the event, the prime minister met with the grieving families of indebted farmers who had committed suicide. He distributed relief packages, and made further promises of assistance to these and other drought-affected regions. A government so preoccupied with its image may well be politically timid about enacting bold reforms.

On the other hand, by burnishing its credentials as a more compassionate alternative to its predecessor, such a government may effectively position itself to push through reforms its predecessors could never dare. Disbanding the ministry of disinvestment – a creature of the NDA government – was of course a demand of the left-leaning components of the UPA government, which have, it must be recalled, shown themselves to be pragmatic about economic reform in the states where they have governed. But the disbanding was also smart

presentational politics in its own right. Redrawing the organizational chart is a costless gesture, unrelated to any specific policy action. A government with anyone other than Manmohan Singh and reform-minded finance minister P. Chidambaram steering economic policy might have needed to worry about the signal that would be sent to international investors by making such a big show of toppling this symbol of liberalization. But astute observers from outside India will see that building up a stock of political capital in this way is necessary to allow the government, at a later stage, to take politically unpopular policy decisions. If Manmohan Singh learned anything from the prime minister under whom he first entered politics, such decisions will be effected with considerably less fanfare.

NOTES

1. Shekhar Gupta interview of P. V. Narasimha Rao, broadcast on NDTV program 'Walk the Talk' on May 11, 2004. Via www.indianexpress.com/full_story.php?content_id=46723&spf=true.
2. Gupta interview with Narasimha Rao, "Walk the Talk."
3. See Pratap Mehta, "A Crisis of the State Structure?" and D. L. Sheth, "How to Make Sense of the Recent Mandate," *The Hindu*, May 20, 2004.
4. Jeffrey A. Frieden and Ronald Rogowski, "The Impact of the International Economy on National Policies: An Analytical Overview," in Robert O. Keohane and Helen V. Milner (eds.), *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996), pp. 25–47.
5. See Lloyd I. Rudolph and Susanne Hoeber Rudolph, *In Pursuit of Lakshmi: The Political Economy of the Indian State* (Chicago: University of Chicago Press, 1987).
6. Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three New Institutionalisms," *Political Studies*, Vol. XLIV, No. 5 (December 1996), pp. 936–57.
7. The question of whether the 1980s or the 1990s were the critical reform decade in India is the theme of a much-debated recent article: Dani Rodrik and Arvind Subramanian, "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition," NBER Working Paper No. 10376 (Cambridge, MA: National Bureau of Economic Research, March 2004). Via papers.nber.org/papers/w10376.pdf.
8. Another account of liberalization's rise that stresses the contribution of returning World Bank and IMF economists in the government of India is Mitu Sengupta, "The Politics of Market Reform in India: The Fragile Basis of Paradigm Shift," unpublished PhD thesis, Department of Political Science, University of Toronto, June 2004, especially Chapter 6. Sengupta argues that these "lateral entrants" into government service did not so much rely on the presumed superiority of imported economic models to win policy arguments as exploit their privileged access to not-yet-released World Bank and IMF studies on the Indian economy, including econometric data and research reports – all of which was leaked to these key officials by well-wishers from the institutions in which they were formerly employed, and to which in some cases they might hope to return if things in India did not turn out to their liking.

Understanding India's Reform Trajectory: Past Trends and Future Challenges

MONTEK SINGH AHLUWALIA

The May 2004 elections in India provided a dramatic demonstration of that core element of democracy – voters can change governments. This has important implications for whoever is managing the process of policy change in India. It must be done in the context of a very genuine democratic process operating at both the state level and the national level. This means that reforms must have a sufficient consensus to ensure continuity and they must be seen to have benefited a sufficiently large percentage of the population if governments are to receive electoral endorsement from time to time. These considerations explain a great deal about the nature of policy reforms in India and also the nature of the political debate which typically heats up before and after election. They are relevant to understand some of the debate on economic policy associated with the May election.

Let me first comment briefly on the nature of policy reforms in India. I have written elsewhere – and one of the papers prepared for this symposium mentions this¹ – that the pluralistic character of Indian politics led to the choice of gradualism in the implementation of reforms. Gradualism has both advantages and disadvantages. The advantage is that it enables the government to build a consensus on reforms which moderates opposition to the reform and also helps

Revised text of the introductory remarks made by Mr. Montek S. Ahluwalia while inaugurating the SAIS symposium on the politics of India's next generation of reforms, held in Washington, DC, on May 17, 2004. At that time Mr. Ahluwalia was the Director of the Independent Evaluation Office of the International Monetary Fund. He subsequently returned to India and is currently serving as the Deputy Chairman of India's Planning Commission.